

Black Country LEP

Black Country Land and Property Investment Fund (the “Investment Fund”)

(Previously referred to as the WMCA / BCLEP Land Fund)

Commissioning Framework

Version 1.5

Date: August 2017

1. Background

The Black Country Land and Property Investment Fund, (the Investment Fund) proposed by the Black Country LEP (BCLEP), seeks to invest in projects which support the re-use of brownfield land and buildings and the delivery of supporting infrastructure. The Investment Fund will invest to secure new housing, industrial and commercial development, and is currently made up of allocations from the £200m West Midlands Combined Authority Land Remediation Fund (LRF), secured from Government as part of the devolution deal.

2. Objectives of the Black Country Land and Property Investment Fund

The Black Country is a nationally important area of economic opportunity at the heart of England. We have a highly investible pipeline of predominantly brownfield development sites and infrastructure projects which is critical to the delivery of our ambitious growth strategy set out in the Black Country SEP and Core Strategy.

The Investment Fund is designed to support the delivery of key projects, where there is demonstration of market failure, by de-risking private sector investment and addressing a number of challenges including adverse ground conditions, poor infrastructure, abnormal site remediation costs and providing gap funding to bridge the viability shortfalls on schemes.

This commissioning documentation is designed to help identify potential investment projects which can help achieve the objectives set-out in the West Midlands Strategic Economic Plan (WMSEP) and that are not financially viable in their own right subject to any state aid provisions.

The commissioning documentation also considers the findings of the West Midlands Land Commission, which was set-up by the Combined Authority. The work of the Land Commission was established on the basis of two premises;

Premise 1: A sufficient supply of developable land and buildings for both employment and housing use is a pre-requisite for the delivery of the Strategic Economic Plan (SEP)

Premise 2: A shortage of sufficient developable land affects the productivity of the West Midlands region

This commissioning document is designed to identify potential projects which the Fund could invest in. Its investment decisions will be determined by two particular factors;

- 1) The economic outputs and impacts achieved by a proposal

- 2) The extent to which a proposal meets the broader economic priorities of the Black Country

A formal 'call for proposals' will be launched across the Black Country in order to promote the availability of the Investment Fund and ensure that a competitive process allows the fund to secure strong economic and strategic returns.

3. Expected Economic Outputs delivered by Black Country Land and Property Investment Fund

The Investment Fund will aim to deploy its resources to maximise the future level of economic activity on brownfield sites and the supply of modern floorspace within buildings.

Each application to the Investment Fund for resources must demonstrate it is directly delivering or securing a clear pathway to securing economic activity. This will be measured by economic outputs and associated outcomes.

The **direct** output measurements for the Investment Fund are;

- New Houses constructed
- New Jobs Created
- New Learner Outcomes
- New commercial floorspace
- Commercial floorspace returned to Economic use
- Private sector leverage
- Hectares of land improved
- Apprenticeships Created

The Investment Fund will also invest in projects that indirectly deliver key outputs. For example, it may be that off-site infrastructure is required to open-up an employment site, or off-site improvements are required to make a housing site attractive to the market, or land that is reclaimed and returned to the land supply prior to development. An applicant must demonstrate a direct link between off-site investments and economic returns.

It is expected that all applicants to the Investment Fund will be required to establish a GVA (gross value added) calculation to assess the overall impact of a scheme level investment on the local or regional economy. A threshold value for a Grant support bid will be established to allow the requirement to be waived where clearly it would be onerous and disproportionately expensive.

The overall Investment Fund is £150m, with an initial drawdown of £53m which is operational between 2017- 2021. The Black Country Consortium has agreed to deliver

the following aggregate levels of outputs through deployment of the initial tranche of £53m of the Investment Fund;

- 1,860 New Jobs
- 1,600 Houses
- 126,000 sqm of Commercial floorspace

This demanding level of return means that applicants to the Investment Fund must demonstrate value for money and how their target Outputs will directly contribute towards these programme level targets.

To achieve such significant returns applicants to the Investment Fund will need to demonstrate strong levels of leverage of Commercial Developer funding or Public sector match-funding.

There are no exact ratios as each intervention will be different, but as a rule of thumb it is expected that projects will have a guide maximum grant intervention rate of approximately 30% of total project costs.

This ratio may prove a challenge for speculative land remediation projects. These will be reviewed on an individual value for money basis. In such cases, it is generally recommended that an onward development plan for a site specifying targeted future Outputs is included in the investment case.

The Investment Fund will invest behind speculative development schemes. Whilst it is expected that every attempt to secure occupiers for a scheme, a failure to deliver indirect outputs arising from a project will not be deemed an act of default. However, the appraisal process will seek to establish the likely attractiveness of a proposed site to the market. It is expected that all proposals for speculative development should include an independent market assessment relevant to the proposed site that evidences the level of potential market interest.

A scheme level evaluation framework will be established. This will help establish some benchmarks around the levels of investment return and risk the Fund will take.

4. Deploying the Investment Fund to secure strategic returns

Alongside the objective of securing economic output returns, the Investment Fund has the objective of securing strategic outcomes for the Black Country.

Projects which can demonstrate a high 'economic output' return or a strong 'strategic case' for investment will be prioritised.

There is no scientific way to 'score' projects on the basis of their 'strategic return'. However, it is possible to broadly assess whether they have a 'strong', 'medium' or 'low' fit with key Strategic Priorities contained in the Strategic Economic Plan.

Projects which have a strong strategic fit;

- Bringing forward new employment sites specifically targeted at advanced manufacturing occupiers (B2 planning use over B8)
- Addressing the deficit in new 'Grade-A' office space in the Black Country
- Bringing forward high quality residential development opportunities consistent with Garden City Principles with a focus on very large brownfield sites but not precluding clusters of smaller opportunities that typify the Black Country land supply, which once treated, have a very high chance of being developed
- Skills capital projects which tackle deficits in training for Aerospace, Automotive, Construction and advanced Engineering sectors

The Investment Fund will allocate its resources across the three high level Priority Development propositions:

- Establishing High Value Manufacturing (HVM) Capital City
- Delivering Black Country Garden City
- Strategic Population Centres

5. The Commissioning Priorities

The Investment Fund has three main thematic priorities. The 'calls for proposals' will ask that potential applicants identify which of the strategic priorities an investment proposal will support.

Theme 'A' Population Centres

The objective of the Centre's strand is to increase investment and development in the key commercial centres within the Black Country bringing brownfield sites back into productive commercial use.

A1 Investing in new commercial office stock

- Priority will be given to the creation of new stock on sites with strong existing or strong future potential connectivity
- Schemes must demonstrate site meets demonstrable market demand
- Detailed appraisals must demonstrate a viability gap / case for intervention
- Prioritisation for projects on brownfield (previously used) sites

A2 Secondary Actions (Refurbished Office Stock)

- Schemes must demonstrate they can be effectively refurbished providing floorplates and internal services that the market would demand

- Schemes will require an independent Agent report stating the commercial case for refurbishment, and the likely occupier demand

A3 Population Centres Development

- Investment in public realm/environmental enhancement where it compliments transformational investment by the private sector in brownfield sites

A4 Learning Institutions

- Investment in the conversion/construction of buildings for learning and knowledge institutions in key existing population centres or future centres of Economic regeneration.
- Schemes should demonstrate how learning outcomes deliver on key agenda's such as apprenticeships and skill shortages as identified in the Black Country strategic economic plan.

A5 Commercial Property Investment in Leisure & Cultural Institutions

- The delivery of new hotel and leisure development in key centres can be supported in certain circumstances. The Investment Fund would likely only support projects for full service hotels, which generate strong additional Employment, Apprenticeship and Training outputs.
- The delivery of new or enhanced leisure and cultural facilities addressing growing the tourist market. Leisure and cultural institutions could be supported in-line with the aims of the SEP growth / diversification agenda. An example would be the focus on a tourism cluster development.
- Leisure and cultural institution bids would need to demonstrate a contribution to strategic economic priorities and enhanced economic impact demonstrated by additionality through jobs, apprenticeships, training schemes, visitor footfall all resulting from the targeted investment.
- Requirement for gap funding must be demonstrated in a development appraisal, while level of investment must be in line with State Aid compliance constraints.

Theme B Housing

Support for the delivery of new and improved housing by the private and public sectors, including the remediation of sites and their return to the land supply. Opportunity for key partnership working through alignment of activity to the priorities of the Homes

and Communities Agency to support the delivery of new social and affordable housing, that contribute towards regional and sub-regional growth targets.

B1 Clearing and preparing sites for residential development

- The Investment Fund will support the improvement of privately and publically owned residential sites by providing support to meet the abnormal costs of development that would otherwise prevent schemes from proceeding. For example, the demolition of existing structures, the treatment of contaminated and despoiled ground, the treatment of mine workings and capping of mine shafts, the provision of new infrastructure, site re-grading to create development plateaus, service diversions and another abnormal development costs that contribute towards a project's lack of viability. Investments will be on the minimum necessary basis for the project to proceed and development partners will be expected to net off any increase in land / project value arising from the grant investment.
- The Investment Fund can take wider actions to support Direct Development by the public sector and other government agencies to assemble, remediate and install new infrastructure in order to de-risk delivery and prepare sites for return to land supply.

B2 Off-site infrastructure to support residential development

- The Investment Fund will support new infrastructure where it helps unlock a residential site of scale

B3 Offsite Environmental enhancements to speed up the delivery of large scale housing sites

- The Investment Fund will support offsite environmental enhancements where they will directly help improve the marketability and speed of delivery of a major brownfield housing site (in excess of 300 units)
- The Investment Fund will support improvements to local centres, where they directly impact the delivery of a major housing scheme (in excess of 300 units)

B4 Conversion of abandoned buildings to support new residential development

- The Investment Fund will support housing projects which seek to bring back abandoned buildings for residential development

- Projects must demonstrate a clear cost/value gap to substantiate the need for grant, and the Fund should be directed at buildings which have not been used for a prolonged period.
- Projects must have the active support from their local planning authority if they are seeking a change of use to residential, even though some changes of use from commercial to residential can be undertaken as permitted development without the need for planning permission/ local authority support.

B5 Local Authority led brownfield land delivery programmes

- The Investment Fund can be deployed by a Local Authorities and other public bodies to support the acquisition, the holding and assembly of residential sites for development, including the exercise of compulsory purchase powers and other legal powers. NB: the Legal powers include support for enforcement action through the Planning Acts to deal with absent landlords and acquire abandoned sites for development.

Theme C Industrial and Commercial sites

Support for the delivery of high quality sites and premises to allow indigenous companies and inward investors to bring forward sites and premises to meet business needs. Interventions focussed around land assembly, the provision of new infrastructure, site preparation and remediation costs in order to remove barriers to investment and create conditions for growth.

C1 Clearing and preparing sites for commercial and industrial development

- The Investment Fund will support the improvement of privately and publically owned commercial and industrial sites by providing support to meet the abnormal costs of development that would otherwise prevent schemes from proceeding. For example, the demolition of existing structures, the treatment of contaminated and despoiled ground, the treatment of mine workings and capping of mine shafts, the provision of new infrastructure, site re-grading to create development plateaus, service diversions and another abnormal development costs that contribute towards a project's lack of viability. Investments will be on the minimum necessary basis for the project to proceed and development partners will be expected

to net off any increase in land / project value arising from the grant investment.

C2 Off-site infrastructure to support commercial and industrial development

- The Investment Fund will support new infrastructure where it helps unlock a commercial or industrial sites of scale and de-risk delivery for private sector delivery partners.

C3 Supporting private investors bring forward speculative development

- The Investment Fund will provide 'gap' funding to developers for schemes which can demonstrate through a full cost/value appraisal that a viability gap exists
- The Investment Fund will (on occasion) support 'gap' funding where an end-user is identified, but the reason for the viability gap must be demonstrated. NB: A pre-let will improve values, but may not fully close down a viability shortfall.

C4 Speculative reclamation of brownfield sites

- The Investment Fund will provide resources to private sector organisations who bring forward reclamation schemes. The private investor must deduct the uplift in land value and agree to an obligation to repay the whole grant if 'substantive' development does not proceed within a defined time-period.

C5 Direct Development undertaken by local authorities to address supply constraints.

- The Investment Fund will provide resources to support public sector partners to pump-prime industrial sites in their direct ownership by removing cost risks. Sites which are put forward must demonstrate a clear market case to demonstrate the site would be attractive to developers. The Local Authority should pay back the relevant proportion of land value uplift achieved upon disposal of the site.
- The Investment Fund will support Local Authorities to assemble and hold industrial sites which require de-risking and site preparation works prior to being returned to the land supply. This could include undertaking activities that aid programmes restrict the private sector from pursuing, such as site clearance programmes and providing new infrastructure to support growth.
- The Investment Fund will support public sector led assembly and preparation of large scale sites in multiple ownership to meet strategic land supply targets and investment priorities. A clear route to delivering the overall site must be in-place and in the event that the site is not brought forward within a defined time period the site sold and the receipt returned to the LEP.

C6 Bringing forward major strategic sites in phases

- The Black Country area contains a small number of very large and complex industrial sites which cannot be wholly reclaimed and developed within a programme period. For these sites, phases of reclamation could be supported against a longer-term plan for the wholesale redevelopment of the site.

6. Principles of Investment

The Investment Fund is predominantly a grant funding programme.

The West Midlands region has a range of publicly operated funds designed to support economic development. This includes funds which are intended as loan/recycling finance.

Grant funding is designed as a last resort and where awards are made, these should be on a minimum necessary basis. Applicants who have schemes which could secure recyclable finance should actively demonstrate they have sought to do so. Private sector applicants will be expected to demonstrate on an 'open book' basis costs and values to substantiate the need for grant. If it is the professional view of the appraiser that the scheme could proceed without grant, it will be directed towards the regions recyclable Investment funding pots.

7. Economic Appraisal Model (already deployed in Black Country processes)

The Investment Fund will use national best practice to ensure that robust project appraisals are completed ahead of any investment decisions.

Scheme bids will be evaluated by using a version of HM Treasury, Green Book 5 Case Model, tailored to Land & Property based schemes. Scheme bids will be evaluated against:

- Alignment to Strategic priorities,
- "Value For Money" (including Financial returns) in generating priority Outputs (see 3 above),
- Wider Economic impact on the Local & Regional economy.
- Ability & track record of Bidders
- Robustness and deliverability of the overall scheme (Issues & Risks)

All Scheme bids must demonstrate compliance with State Aid Regulations and detail the precise and specific exemption under which the bid can be evaluated.

Scheme bids should normally demonstrate at least 70% contribution toward meeting Eligible Costs. Professional Property Advisers and their Cost Consultants will determine realistic Eligible costs and advise on overall Eligibility, Strategic Fit and value for money, consistent with the tailored 5 Case Model being deployed. Where

required by the LEP, schemes will also be expected to provide an Economic Impact Assessment report to substantiate & support their claims for Local & Regional GVA (economic) uplift.

8. Detailed Qualifying criteria for eligible bids

The structure of the HMT 5 Case Model will be followed by Professional Property Advisers in constructing their Evaluation findings for each Scheme submitted and will report their detailed findings in relation to:

- Applicants & Delivery Partners
 - Current status
 - Track record of previous delivery
 - Role & suitability of Project Partners
- Project bid
 - Site, Land & / or Buildings condition
 - Ownership / controlling interest
 - Evaluation of the Project Plan & Scheme content, Planned Activities and their consistency with proposed Outputs
- Strategic Case for Remediation, Redevelopment or Regeneration
 - Consistency Strategic LEP, and WMCA priorities
 - Fit to Councils and their priority development Plans
 - Progress in Consultation with Stakeholders
 - Initial view of the wider Economic impact
- Economic Case
 - Project Options Analysis
 - Employer / User demand for Project Outputs
 - Robustness of Outputs Claimed
 - Review of Value For Money
- Commercial Case
 - Procurement
 - Planning Position
 - Design Standards
 - Disposal Strategy
- Financial Case,
 - Amount and form of Funding to deliver the Scheme
 - Cost Appraisal, including review of (Red Book) valuations
 - Certainty & Security of Other Funding sources
 - Financial / Project Cashflows, Financial returns
- Management Case (Deliverability)
 - Realistic key Milestones and supporting Key Task listing
 - Project Team expertise
 - Legal Status of the Applicant (land Ownership, etc)
 - Validity of State Aid Exemption claimed
 - Project & Output monitoring and evaluation

- Identification of Key Issues & main Risks

All of the above criteria will be drawn into a set of Conclusions with a resulting Recommendation that details any applicable Conditionality that should be agreed in the supporting Heads of Terms document.

9. How to apply for grant funding

Applicants should begin by completing an Initial Proposal which will be submitted to and evaluated by Black Country Consortium Programme Office against the published predefined criteria for Business Case submissions. Only if successful will the Bidder be invited to progress through the Full Business Case evaluation process.

10. The Business Case Stages

10.1 Initial Proposal

The purpose of the Initial Proposal is to provide a high level overview of the project, and the opportunities it presents and the risks it entails. Applicants are required at this initial stage to specify which of the Black Country LEP Growth Objectives and Measures of Success will be addressed and how the proposal will unlock the identified Growth Objectives. Clear strategic alignment to the Strategic Economic Plan (SEP) is paramount in order for the proposal to be considered. Onus is also on applicants to ensure that a project is state aid compliant. Each application should be accompanied by a statement by the applicants suitably qualified lawyers explaining which exception applies and why.

Any organisations or businesses that are interested should download and complete the Initial Proposal form below and email it to rachel_goodwin@blackcountryconsortium.co.uk

10.2 Full Business Case

The Business Case follows the recommended standard set by HM Treasury and is based on the Five Case Model. The five different aspects which are interconnected but distinct include the Strategic Case, the Economic Case, the Commercial Case, the Financial Case and the Management Case.

The Full Business Case (FBC) is the detailed planning stage where the applicant will revisit and build on the information supplied in the Initial Proposal. The full business case will be used to inform prioritisation where there are overall programme affordability considerations.

A copy of the Full Business Case and the full set of appendices will be provided by the Programme Office once an Initial Proposal bid has been received and evaluated.

During the FBC stage of the project lifecycle the bid will be subjected to legal and financial Due Diligence (DD) to be carried out by City of Wolverhampton Accountable Body and Black Country LEP partners. A contract for grant funding cannot be awarded until full Due Diligence has been completed.

10.3 Live / In-flight projects

Once a project has received approval from the LEP Board, the Joint Committee and has been awarded a signed Grant Agreement from City of Wolverhampton Accountable Body it is considered 'Live'.

During this stage of the project lifecycle the Programme Management Office will be responsible for all Monitoring and Performance Reporting for all Projects receiving grant Support. The appointed Project Manager will report fortnightly updates to the Programme Office through completion of a Project Status Report using online reporting tool - VERTO.

11. The role of City of Wolverhampton Accountable Body

The City of Wolverhampton is to become the Accountable Body for the Black Country Land and Property Investment Fund.

11.1 Role of City of Wolverhampton Accountable Body

The Wolverhampton Accountable Body will:

- Provide the Treasury Management functions to obtain and manage funding facilitated WMCA to enable delivery of Approved Schemes
- Ensure full Due Diligence processes to validate Bidders and scheme bids, focused on the use of a set of Frameworks providing expert professional suppliers who will deliver:
 - Professional Property scheme evaluations
 - Financial evaluations of the Bidder's ability to deliver the Scheme
 - Professional evaluations of the Company's trading status
 - Expert Property based proposed Heads of Terms for each Scheme
 - Commercial Legal expertise to Draft Theme specific Contracts
 - Professional QS or Property Surveyor validation of Scheme grant claims
- Manage the contractual relationship between BC LEP Investment Fund and each of the contracted projects.

- Provide the Secretariat function for the Fund administration, delivering submissions relating to the Investment Fund to the Black Country Executive Joint Committee
- Administer a best practice processes consistent with a Compliance Framework which delivers both effective Financial Control and appropriate Management Risk
- Manage Claims Payment system for the Fund consistent with effective Financial Control and linked to each of the Compliance processes deployed.
- Account for the effective financial administration and performance of the Investment Fund on a regular basis to the BC LEP, utilising its own internal audit, accountancy and treasury management systems to delivery that role.

The Wolverhampton Accountable Body will ensure conflicts of interest for all types of Professional Service providers are not allowed to arise.

For example: Professional Property suppliers may not hold more than one of the following roles in relation to bids for Grant support:

- Development of Schemes and Preparation of Scheme Bids
- Appraisal of Scheme bids, & recommendations to the Funding Sub Group
- Verification of Grant Claims from bidders

12. The role of BC LEP Programme Management Office

The Programme Management Office (PMO) provides the decision support behind successful programme management. It is responsible for supporting the programme governance, project processes and day to day management of the Programme, informing the oversight and governance of the programme by the LEP Board, Joint Committee and the relevant sub-committees. It provides information to the Black Country LEP Board advising them of the progress of projects against plan, conflicting priorities and programme risks. It will scrutinise and challenge Project submissions against the SEP and recommend accordingly.

The PMO's objective is to ensure that the Black Country LEP fully utilises the opportunities the Investment Fund offers in delivering Outputs consistent with both Black Country and the wider WMCA SEP priorities, at the earliest opportunity.

13. The role of BC LEP Funding Sub Group

The LEP Board Members Funding Sub Group (FSG) will consider Bids and Update reports on behalf of the main LEP Board.

The FSG will receive and consider Bids and Update reports on behalf of the main LEP Board. This will be facilitated through the PMO, who will deliver to the FSG:

- Regular performance update Dashboards monitoring and evaluating the performance of the Investment Fund and its Approved Schemes
- Scheme Applications (bids) for Grant support. These will consist of
 - Final Scheme templated bid
 - Evaluation of Bid by Professional Property service provider
 - Draft Heads of Terms, applicable if the bid is supported,
 - Any other relevant information which informs consideration of the bid

The FSG will evaluate each Scheme bid and having considered all relevant information make recommendation to the LEP Board. Recommendations will consist of support, deferral or rejection of the bid. If supported the FSG will offer:

- Endorsement of the Scheme bid
- Endorsement or amendment of the Draft Heads of Terms¹ proposed to be incorporated into the Contracted Grant Award.
- Endorsement of any attaching conditionality not already identified in HoT's
- FSG will require:
 - regular Monitoring of spend,
 - progress updates of approved projects,
 - update reports on the delivery of outputs, and
 - progress reports clarifying the Pipeline of potential proposals to increase the take up of the Investment Fund.

14. The role of BC LEP Board

In relation to the Black Country Land and Property Investment Fund, (the Investment Fund) the LEP Board will, in conjunction with Wolverhampton Accountable Body and within any frameworks and rules set out by Government or other funding agencies:

- Take overall responsibility for the strategic development, utilisation and management;
- Ensure that funds are directed towards the achievement of the objectives of both BC LEP and WMCA strategic priorities contained in the respective SEP's;
- Work with the private sector, local authorities, colleges and universities, Government and Government agencies, third sector and other partner and representative organisations to co-ordinate and facilitate the development of projects to secure the ongoing utilisation of these funds towards the objectives of the SEPs;

¹ It is to be noted that the Heads of Terms are Draft at this stage and, whilst any fundamental conditionality approved by the LEP Board is fixed, the draft Heads of Terms will be the subject of final negotiation between the parties. It is suggested that for complex or novel projects, a copy of the final legal agreement is shared with the Chair of the LEP Funding Sub Group for completeness.

- In conjunction with Wolverhampton Accountable Body, monitor the ongoing spend of projects to maximise the utilisation of the Investment Fund and ensure grant awards are in accord with the overarching requirements of WMCA.

15. Collaboration Legal Framework – extract from BCLEP Assurance Framework

The four Black Country Councils and Black Country Consortium Ltd. have entered into a collaborative agreement that establishes a legal framework for joint working in relation to the functions of the Joint Committee. The Agreement gives delegated authority from each of the four Local Authority Cabinets to the Joint Committee. Therefore, when the Joint Committee approves a decision it is acting as Cabinet for each of the Local Authorities. Walsall Council, as Secretary to the Joint Committee and Advisory Board, reports to the Joint Committee.

The **Black Country Joint Committee** acts as a strategic body setting and reviewing objectives for strategic investment across the Black Country, providing a coherent single position on the major strategic issues, agreeing the allocation of spending and major priorities.

The **Joint Committee Advisory Board** was established by the four Black Country local authorities and acts as a strategic advisory body; reviewing and recommending to the Joint Committee objectives for strategic investment across the Black Country in relation to the City Deal, Growth Deal and the Black Country Land and Property Investment Fund.

The overall role of the officer **Working Group** is, with support from the Programme Management Office, to devise, oversee, manage and monitor the City Deal, Growth Deal and the Black Country Land and Property Investment Fund and review and evaluate on a regular basis ongoing individual project's progression and delivery against the business case for the project, including any key milestones, financial spend and compliance with any central Government grant terms, and report and make recommendations to the Advisory Board as appropriate.